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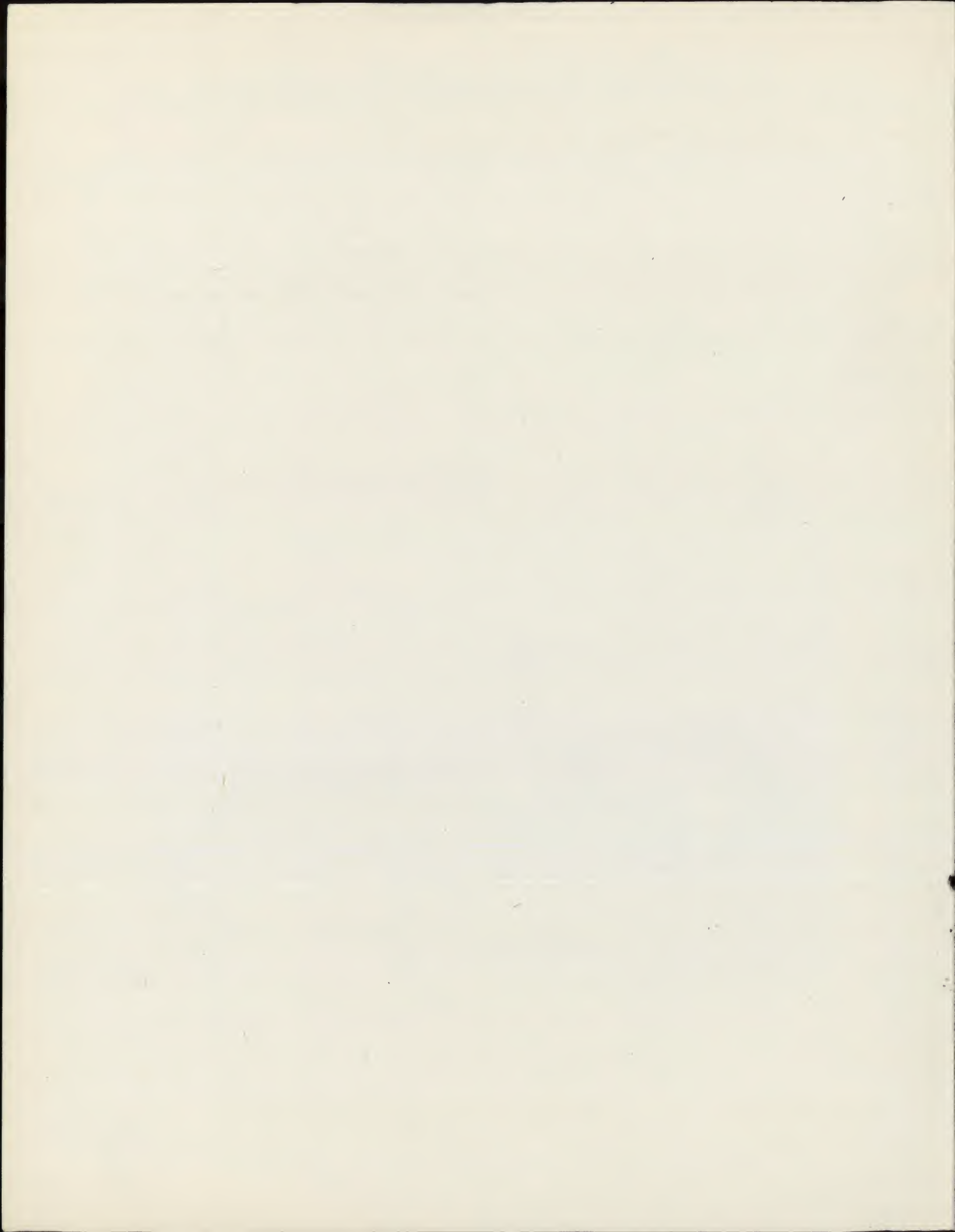
THE KROGER CO.

# ANNUAL REPORT

1948



LR+M



## OFFICERS

CHARLES M. ROBERTSON, *Chairman of the Board*

JOSEPH B. HALL, *President*

JOSEPH BAPPERT, *Vice-President*

JOHN M. LOCKHART, *Vice-President*

FRANK M. GRIEME, *Treasurer*

ROGER B. CONANT, *Assistant Treasurer*

BRYAN J. WEBER, *Assistant Treasurer*

JACOB E. DAVIS, *Vice-President*

JOHN H. SADLER, *Secretary*

GEORGE W. ROSE, *Assistant Secretary*

SYDNEY G. WILSHIRE, *Assistant Secretary*

## DIRECTORS

JOSEPH BAPPERT  
Vice-President

WALTER A. DRAPER, *Cincinnati*  
Chairman of the Board, The Cincinnati  
Street Railway Company

CHARLES W. DUPUIS, *Cincinnati*  
President, The Central Trust Company

HARRY J. GILLIGAN, *Cincinnati*  
Proprietor, John J. Gilligan & Son

JOSEPH B. HALL  
President

JOHN M. HANCOCK, *New York*  
Partner, Lehman Bros.

CARL M. JACOBS, *Cincinnati*  
Partner, Frost & Jacobs

A. T. KEARNEY, *Chicago*  
Partner, A. T. Kearney & Co.

CHESTER F. KROGER, *Cincinnati*  
Proprietor, Clovelly Stock Farm

CHARLES M. ROBERTSON  
Chairman of the Board

STANLEY M. ROWE, *Cincinnati*  
President, The Shepard Elevator Co.

JOHN H. SADLER  
Secretary

DONALD M. WOOD, *Chicago*  
Partner, Childs & Wood

## TRANSFER AGENTS

The Provident Savings Bank and Trust Company, Cincinnati  
Bankers Trust Company, New York

## REGISTRARS

The Central Trust Company, Cincinnati  
The Commercial National Bank and Trust Company of New York, New York



## PRESIDENT'S LETTER

Sales of \$825,668,323 for 1948 (53 weeks) established a new record, exceeding the previous record sales for 1947 (52 weeks) by \$71,386,238 or 9.5%. A normal Kroger year consists of thirteen four-week periods, a total of 52 weeks or 364 days. Every sixth year an extra week is included in the business year to correct our calendar. 1948 was such a year.

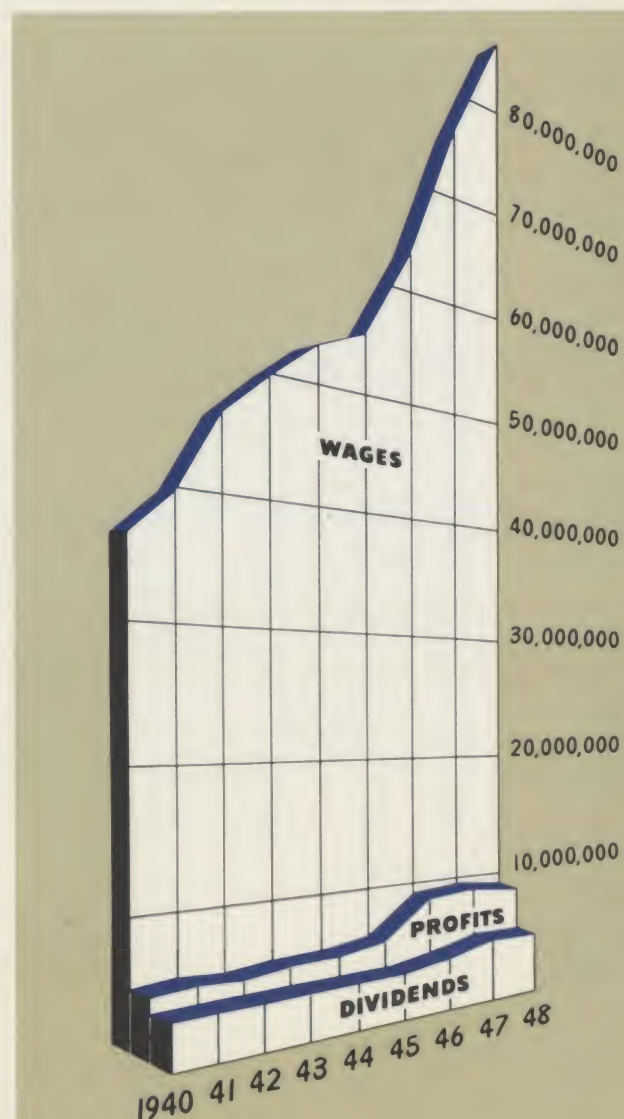
C2 Net income as shown in the accompanying statement of income is \$11,811,120. In 1948, as in 1947, in the judgment of the management there should be deducted from income \$2,500,000 as a provision for possible inventory losses resulting from falling prices and for other contingencies inherent in the present economic situation. After this provision the remaining net income is \$9,311,120, or \$5.07 per share, as compared with \$5.23 per share in 1947.

While increased sales produced more gross profit dollars, net income was reduced because of: an increase in operating expenses of \$13,000,000, principally due to higher wage rates and to an increase of \$800,000 in store leasehold improvement expenditures; and reduced profit margins of the Manufacturing Division. It is our policy to write off leasehold improvements immediately upon the incurring of the expenditure.

In 1948 we spent approximately \$10,000,000 for equipment and store installations. This expenditure, for necessary replacement and rehabilitation of our working tools, exceeds the entire year's earnings after taxes.

Inventories were \$63,956,574 at the end of the year or 1.2% below the previous year. Retail inventories represented 23 days' supply as compared to 26 days' at the end of 1947. Inventory will be continued on a rapid turnover basis in 1949.

Bank loans required to carry heavy seasonal inventory during the fall months reached a peak of \$9,200,000 at December 1, but declined to \$4,200,000 at year-end and have since been reduced to \$3,000,000.



During 1948 the company continued its store expansion program with the opening of 147 new or relocated stores. Kroger stores were established in several cities in which we previously were not located . . . Chattanooga, Tennessee; Athens and Macon, Georgia; Decatur, Alabama; Miami, Oklahoma. This follows our policy of a moderate expansion into particularly desirable areas adjoining our present sales territory coupled with an intensive development of the latter. High rentals and high equipment costs have necessitated considerable caution in the establishment of new stores. Our program is based upon careful analysis and consideration of sales potentials. Results to date have been beneficial.

A new warehouse for our Madison, Wisconsin, branch is in process of construction, and warehouse enlargements are in process for our branches at Carbondale and Peoria, Illinois, and Roanoke, Virginia.

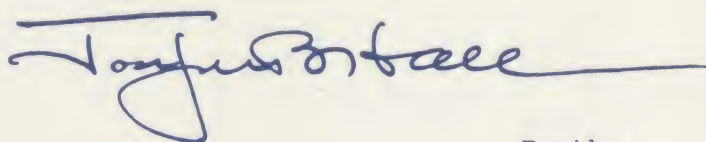
The capital expenditure program for 1949 includes continuation of the stores program, plus the possible construction of three warehouses and a bakery.

In January, 1949, Mr. Bolton S. Armstrong, a director of the company since 1937, resigned for reasons of health. Mr. Armstrong's service to the company was faithful and effective. His resignation was accepted with extreme regret. Mr. Donald M. Wood of Chicago, a partner of Childs and Wood, general insurance agency, was chosen by the Board of Directors to fill the vacancy created by Mr. Armstrong's resignation. Mr. Wood has been the company's insurance adviser since 1934 and is a director and Chairman of the Executive Committee of the Manufacturers and Merchants Indemnity Company, a Kroger subsidiary.

Mr. George M. Bunker, Vice-President in charge of Manufacturing, recently resigned to become President of the Trailmobile Company. Mr. M. T. Lindquist, who has been with Kroger since 1931, has been appointed General Manager of the Manufacturing Division.

The Kroger organization has maintained its high level of performance. The year ended with three consecutive period sales records. We face the problems of 1949 with confidence.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "J. Edgar Bunker", with a long horizontal line extending to the right.

February 11, 1949.

President



*These products are the  
major food items manufactured  
by your company and sold only  
in KROGER stores.*







# THE KRO CONSOLIDATED BALANCE

## ASSETS

Cash on hand and demand deposits.....	\$ 19,745,290
Receivables .....	3,043,433
Inventories of merchandise, at lower of cost or market.....	63,956,574
Store and general supplies.....	2,528,199
Prepaid insurance, rent and taxes.....	<u>661,286</u>
TOTAL CURRENT ASSETS.....	89,934,782

Investment in subsidiary insurance company not consolidated, at cost.....	1,523,610
Stocks in other companies.....	93,932

## FIXED ASSETS:

Land .....	\$ 1,242,585
Buildings .....	\$ 9,294,904
Machinery and equipment, at cost.....	<u>39,146,636</u>
	48,441,540

Less allowance for depreciation and obsolescence .....	<u>24,579,219</u>	<u>23,862,321</u>	<u>25,104,906</u>
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TOTAL ASSETS .....	<u><u>\$116,657,230</u></u>
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GER CO.  
SHEET—JANUARY 1, 1949

LIABILITIES

Notes payable, banks.....	\$ 4,200,000
Accounts payable .....	17,288,670
Accrued expenses .....	7,759,134
Provision for Federal taxes, current and prior years.....	<u>10,391,202</u>
TOTAL CURRENT LIABILITIES.....	39,639,006
Employees Benefit Fund .....	2,189,764

CAPITAL

Preferred capital stock, par \$100:

First preferred, 6%, 283 shares outstanding.....	\$ 28,300	
Second preferred, 7%, 175 shares outstanding.....	<u>17,500</u>	\$ 45,800

Common capital stock without par value:

Authorized 3,000,000 shares	
Outstanding 1,836,589 shares.....	33,671,735

Accumulated earnings:

Unappropriated .....	31,932,833	
Appropriated for contingencies.....	<u>9,178,092</u>	<u>41,110,925</u>
		<u>74,828,460</u>

TOTAL LIABILITIES & CAPITAL.....	<u><u>\$116,657,230</u></u>
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## CONSOLIDATED STATEMENT OF INCOME AND ACCUMULATED EARNINGS

Fiscal Years Ended January 1, 1949 and December 27, 1947

	1948 <u>(53 Weeks)</u>	1947 <u>(52 Weeks)</u>
Sales .....	\$825,668,323	\$754,282,085
Cost of sales.....	<u>709,428,461</u>	<u>649,017,666</u>
	116,239,862	105,264,419
Operating and general expenses.....	<u>96,324,232</u>	<u>83,549,121</u>
Profit from operations.....	19,915,630	21,715,298
Non-operating income and expense.....	<u>(174,910)</u>	<u>341,678</u>
Income before Federal taxes on income.....	19,740,720	22,056,976
Federal taxes on income.....	<u>7,929,600</u>	<u>8,537,000</u>
Net income .....	<u>11,811,120</u>	<u>13,519,976</u>
Provision for earned vacation pay—prior years.....	—	1,409,000
C2-Current earnings appropriated for contingencies.....	<u>2,500,000</u>	<u>2,500,000</u>
	<u>2,500,000</u>	<u>3,909,000</u>
Balance of net income.....	9,311,120	9,610,976
Dividends declared during the year.....	<u>5,508,122</u>	<u>5,519,409</u>
Balance of income transferred to accumulated earnings.....	3,802,998	4,091,567
Accumulated earnings unappropriated—at beginning of year.....	28,129,835	24,038,268
Accumulated earnings unappropriated—at end of year.....	<u><u>\$31,932,833</u></u>	<u><u>\$ 28,129,835</u></u>



## REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

TO THE BOARD OF DIRECTORS,  
THE KROGER CO.,  
CINCINNATI, OHIO.

We have examined the consolidated balance sheet of The Kroger Co. and subsidiary companies as of January 1, 1949, and the related consolidated statement of income and accumulated earnings for the fiscal year (fifty-three weeks) then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The investment in Manufacturers and Merchants Indemnity Company, an insurance company licensed under the laws of the State of Ohio, represents the entire capital stock of that company other than the directors' qualifying shares. At December 31, 1948, the company's equity in the net assets of the insurance company determined in accordance with the rules of the Commissioner of Insurance of the State of Ohio, amounted to \$1,322,098. Total assets of the insurance company, so determined amounted to \$4,499,169, consisting principally of cash, U. S. Government securities and other marketable securities aggregating \$3,946,017. Operations of the insurance company for the year 1948 resulted in a statutory loss of \$212,304. No dividends were declared or paid by the insurance company during 1948.

Land and buildings are stated at cost less \$1,810,367, the applicable portion of a net appraisal write-down charged to surplus in 1932.

The statement of income includes charges for depreciation amounting to \$4,485,145.

In our opinion, the accompanying consolidated balance sheet and statement of income and accumulated earnings present fairly the consolidated financial position of The Kroger Co. and subsidiary companies at January 1, 1949 and the results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

LYBRAND, ROSS BROS. & MONTGOMERY

Certified Public Accountants

Cincinnati, Ohio  
February 11, 1949.

## FINANCIAL AND OPERATING STATISTICS

	1948	1947	1946	1940	1935
SALES .....	\$825,668,323	\$754,282,085	\$573,760,884	\$260,417,228	\$231,442,249
NET INCOME .....	\$ 9,311,120	\$ 9,610,976	\$ 9,365,780	\$ 4,607,126	\$ 4,110,926
NET INCOME PER SHARE.....	5.07	5.23	5.10	2.51	2.25
DIVIDENDS PER SHARE.....	3.00	3.00	2.50	2.00	1.60
NUMBER OF SHAREHOLDERS.....	27,436	27,421	27,270	25,681	22,537
NUMBER OF STORES .....	2,349	2,516	2,611	3,727	4,250
NUMBER OF EMPLOYEES.....	24,969	23,953	22,349	22,358	21,611
CASH .....	\$ 19,745,290	\$ 20,611,352	\$ 14,584,867	\$ 11,507,754	\$ 10,158,664
MERCHANDISE INVENTORIES .....	63,956,574	64,710,122	63,025,926	23,667,892	20,129,097
NET WORKING CAPITAL.....	50,295,776	50,434,510	46,347,007	27,615,402	26,550,609
ACCUMULATED EARNINGS .....	\$ 41,110,925	\$ 34,807,927	\$ 28,086,875	\$ 12,679,352	\$ 15,697,708
NET WORTH .....	74,828,460	68,564,962	61,848,610	46,753,620	49,200,057
NET WORTH PER SHARE.....	40.72	37.29	33.63	25.47	27.00

